

ALTERNATIVE FORECASTS

DRI*WEFA has assigned a 50% probability of occurrence to its July 2002 baseline forecast of the U.S. economy. The major features of this forecast includes:

- Real GDP increases 2.5% in 2002, 3.5% in 2003, 3.7% in 2004, and 3.1% in 2005;
- U.S. nonfarm employment declines 0.7% in 2002, advances 1.7% in 2003, 2.1% in 2004, and 1.6% in 2005;
- the U.S. civilian unemployment rate peaks at 5.9% in 2002 and falls gradually to 5.0% by 2005;
- the consumer confidence index hovers near 93 through the forecast period;
- consumer inflation is 1.7% in 2002 and averages 2.8% thereafter;
- the federal government runs small annual deficits through 2005;
- and the current account balance deficit swells to \$701.2 billion by 2005.

While the baseline forecast is the most probable, other outcomes are also possible. The alternative scenarios considered here diverge in separate directions from the baseline forecast. In the first, the economy performs better than in the baseline. In the second, the economy falls short of the baseline's showing. Each has been assigned a 25% probability of occurrence. Both alternatives and their impacts on the Idaho economy are discussed below.

OPTIMISTIC SCENARIO

This scenario considers the impacts of the huge trade imbalance on the national economy. It has been assigned a 25% probability of occurrence. Coming out of this recession, the U.S. economy remains hamstrung by one glaring imbalance: the current account deficit. In every previous post-war recession, the current account moved into balance as imports dropped and exports remained steady. Because this recession has taken a toll on other countries, U.S. exports have dropped, resulting in a bulging current account deficit that now exceeds 4% of GDP.

In this scenario, the weight of the current account deficit finally takes its toll on the dollar. Over the next year, the dollar drops 15% below its baseline value. This causes stronger GDP growth because imports drop and exports rise. But it also brings higher inflation. The economy expands 4.0% in 2003, which is slightly faster than the baseline's 3.5% growth rate. Real GDP is projected to expand 3.9% in 2004 and 2.9% in 2005. In the *Baseline Scenario* it grows 3.7% in 2004 and 3.1% in 2005.

The stronger U.S. economy does have a favorable impact on Idaho nominal personal income, but this advantage is lost once inflation is taken into account. Specifically, Idaho nominal personal income is about \$290 million higher than its baseline counterpart in 2005. However, Idaho real personal income is about \$50 million lower than in the baseline. Interestingly, Idaho nonfarm employment is virtually the same as in the Baseline Scenario.

IDAHO ECONOMIC FORECAST
CURRENT AND ALTERNATIVE FORECASTS
JULY 2002

	BASELINE					OPTIMISTIC					PESSIMISTIC				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
GDP (BILLIONS)															
Current \$	10,208	10,611	11,252	11,967	12,657	10,208	10,612	11,297	12,082	12,808	10,208	10,559	11,035	11,817	12,528
% Ch	3.4%	4.0%	6.0%	6.4%	5.8%	3.4%	4.0%	6.4%	7.0%	6.0%	3.4%	3.4%	4.5%	7.1%	6.0%
1996 Chain-Weighted	9,334	9,572	9,911	10,273	10,589	9,334	9,578	9,966	10,356	10,659	9,334	9,532	9,729	10,175	10,539
% Ch	1.2%	2.5%	3.5%	3.7%	3.1%	1.2%	2.6%	4.0%	3.9%	2.9%	1.2%	2.1%	2.1%	4.6%	3.6%
PERSONAL INCOME - CURR \$															
Idaho (Millions)	32,044	33,374	35,161	37,244	39,440	32,044	33,372	35,192	37,392	39,731	32,044	33,339	34,652	36,807	38,988
% Ch	3.9%	4.2%	5.4%	5.9%	5.9%	3.9%	4.1%	5.5%	6.3%	6.3%	3.9%	4.0%	3.9%	6.2%	5.9%
U.S. (Billions)	8,723	9,028	9,524	10,105	10,683	8,723	9,029	9,557	10,200	10,823	8,723	9,012	9,370	9,966	10,558
% Ch	4.9%	3.5%	5.5%	6.1%	5.7%	4.9%	3.5%	5.8%	6.7%	6.1%	4.9%	3.3%	4.0%	6.4%	5.9%
PERSONAL INCOME - 1996 \$															
Idaho (Millions)	29,256	30,048	30,848	31,824	32,826	29,256	30,036	30,776	31,737	32,778	29,256	30,019	30,307	31,535	32,605
% Ch	2.0%	2.7%	2.7%	3.2%	3.1%	2.0%	2.7%	2.5%	3.1%	3.3%	2.0%	2.6%	1.0%	4.1%	3.4%
U.S. (Billions)	7,965	8,129	8,356	8,634	8,891	7,965	8,127	8,358	8,657	8,929	7,965	8,115	8,195	8,538	8,829
% Ch	2.9%	2.1%	2.8%	3.3%	3.0%	2.9%	2.0%	2.8%	3.6%	3.1%	2.9%	1.9%	1.0%	4.2%	3.4%
TOTAL NONFARM EMPLOYMENT															
Idaho (Thousands)	567.9	568.2	576.6	587.7	600.5	567.9	568.2	576.6	587.5	600.5	567.9	567.8	570.4	582.3	597.7
% Ch	1.5%	0.0%	1.5%	1.9%	2.2%	1.5%	0.0%	1.5%	1.9%	2.2%	1.5%	0.0%	0.5%	2.1%	2.6%
U.S. (Millions)	131.9	131.0	133.2	136.0	138.2	131.9	131.0	133.6	136.8	139.0	131.9	130.7	131.5	134.7	137.6
% Ch	0.2%	-0.7%	1.7%	2.1%	1.6%	0.2%	-0.7%	2.0%	2.4%	1.6%	0.2%	-0.9%	0.6%	2.4%	2.2%
GOODS PRODUCING SECTOR															
Idaho (Thousands)	114.2	107.8	107.8	109.7	112.1	114.2	107.9	108.4	110.7	113.0	114.2	107.5	106.1	108.7	111.9
% Ch	-1.6%	-5.6%	0.0%	1.8%	2.2%	-1.6%	-5.5%	0.5%	2.1%	2.1%	-1.6%	-5.8%	-1.4%	2.5%	2.9%
U.S. (Millions)	24.9	23.9	24.3	24.7	25.0	24.9	23.9	24.4	25.1	25.5	24.9	23.9	23.8	24.2	24.8
% Ch	-2.8%	-4.1%	1.3%	2.0%	1.3%	-2.8%	-4.0%	1.9%	2.8%	1.5%	-2.8%	-4.3%	-0.5%	1.8%	2.7%
SERVICE PRODUCING SECTOR															
Idaho (Thousands)	453.7	460.4	468.8	477.9	488.4	453.7	460.3	468.2	476.8	487.5	453.7	460.3	464.3	473.5	485.8
% Ch	2.4%	1.5%	1.8%	1.9%	2.2%	2.4%	1.5%	1.7%	1.8%	2.2%	2.4%	1.4%	0.9%	2.0%	2.6%
U.S. (Millions)	107.0	107.0	108.9	111.2	113.1	107.0	107.1	109.2	111.7	113.5	107.0	106.9	107.8	110.5	112.8
% Ch	0.9%	0.1%	1.8%	2.1%	1.7%	0.9%	0.1%	2.0%	2.3%	1.6%	0.9%	-0.1%	0.9%	2.5%	2.1%
SELECTED INTEREST RATES															
Federal Funds	3.9%	1.8%	3.0%	4.7%	5.5%	3.9%	1.8%	3.4%	5.4%	6.3%	3.9%	1.7%	2.3%	4.1%	5.0%
Bank Prime	6.9%	4.8%	6.0%	7.7%	8.5%	6.9%	4.8%	6.4%	8.4%	9.3%	6.9%	4.7%	5.3%	7.1%	8.0%
Existing Home Mortgage	7.0%	7.1%	7.5%	8.0%	8.1%	7.0%	7.1%	7.8%	8.4%	8.6%	7.0%	7.0%	7.3%	7.8%	7.9%
INFLATION															
GDP Price Deflator	2.2%	1.4%	2.4%	2.6%	2.6%	2.2%	1.3%	2.3%	2.9%	3.0%	2.2%	1.3%	2.4%	2.4%	2.4%
Personal Cons Deflator	1.9%	1.4%	2.6%	2.7%	2.7%	1.9%	1.4%	2.9%	3.0%	2.9%	1.9%	1.4%	2.9%	2.1%	2.5%
Consumer Price Index	2.8%	1.7%	2.8%	2.8%	2.8%	2.8%	1.7%	3.1%	3.1%	3.1%	2.8%	1.6%	3.1%	2.3%	2.6%

Forecast Begins the FIRST Quarter of 2002

PESSIMISTIC SCENARIO

In this scenario, the economy slows enough to flirt with another recession. This scenario has been assigned a 25% probability of occurrence. There are two factors that contribute to the second slow down. First, it is assumed the economy simply runs out of steam. The end of inventory liquidation has boosted real GDP growth during the first quarter of 2002. But at the end of its growth leg, it finds no one to hand off the economic baton. In the baseline scenario, improving business conditions are assumed to take up the race. In this scenario, business investment is hobbled by a lack of corporate profits and weak final demand. Businesses also delay hiring, which puts a damper on consumer confidence. The second assumption is the United States crosses the line in the sand and invades Iraq in order to topple Saddam Hussein. As a result, oil prices spike as market anticipate the worst. But this military action affects more than just oil prices. It sends jitters through consumers, businesses, and financial markets. The Federal Reserve lowers its federal funds rate to 1.5% in an attempt to keep the economy afloat.

The situation does not deteriorate into a “double-dip” recession, thanks in large part to increased government spending. Spending is expected to be strong in order to fight the war in the Middle East, beef up domestic security, and ferret out and punish corporate wrong doing. After the first-quarter surge, real GDP growth stumbles along in the 0.6-1.6% range through the winter of 2003. Most of this growth is achieved through productivity gains, causing the unemployment rate to climb to 6.6%. As the global situation calms, confidence builds and both consumers and businesses resume buying. Businesses also increase their payrolls. By mid-2003, with the Middle East quiet and oil prices back down, pent-up demand kicks the economy into strong recovery mode. Real GDP expands 2.1% in 2003, 4.6% in 2004, and 3.6% in 2005.

The U.S. slowdown retards the state’s economic recovery. In the baseline it was assumed that Idaho nonfarm employment growth would accelerate to 1.5% in 2003 after stalling in 2002. In the *Pessimistic Scenario*, Idaho nonfarm employment grows a meager 0.5% next year—just a third of the baseline rate. The blow to the goods-producing sector would be especially harsh. Instead of leveling off in 2003, goods-producing payrolls would shrink 1.4%. Likewise, Idaho real personal income growth would also decelerate next year. Unfortunately, these setbacks will not be offset by stronger growth in 2004 and 2005. In the last year of the forecast, Idaho nonfarm employment is down 2,800 jobs from the baseline and real income is off about \$221 million.